

Message Text

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ORIGIN COME-00

INFO OCT-01 EUR-12 EA-09 ISO-00 EB-07 CIEP-02 XMB-04 STR-04

TRSE-00 SIL-01 LAB-04 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 USIA-15 OPIC-06 SP-02 OMB-01 NSC-05 SS-15

CEA-01 L-03 H-02 /107 R

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COM/BEWT/OEWPP/ALENZ

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STATE/EE/RCHRISTIANSEN

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COM/BEWT/EEAD/SPORTER

COM/BEWT/EEAD/MLLEVINE

COM/BEWT/EEAD/LLEWINS, COM/BEWT/USSR/HHEISS, CIEP/DBUSINGER, CON/-

BEWT/TDAD/PVERZARIU, EXIMBANK/RMARKS, STR/ELAPP, COM/BEWT/TDAD/-

PHOROSCHAK, IEPR/IFD/BLEE, TREASURY/DMCMINN, LABOR, BRENISON,

COM/BEWT/USSR/FRIGGS, COM/BEWT/USSR/SBOZEK, COM/BEWT/OEWPP/JMATHESON,

LABOR/DROUSSLANG

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AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY WARSAW

AMEMBASSY MOSCOW

INFO USLO PEKING

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TAGS: EEWT, XH

SUBJECT: EAST-WEST FOREIGN TRADE BOARD STUDY: THE ROLE

--- OF COMPENSATION ARRANGEMENTS IN EAST-WEST TRADE

JOINT/COMMERCE/TREASURY

ALL SOV/EEUR POSTS

1. PARTIALLY IN RESPONSE TO COMPLEX ISSUES RAISED BY RECENT ROLLWAY CASE IN ROMANIA, WORKING GROUP OF THE EAST-WEST FOREIGN TRADE BOARD HAS UNDERTAKEN STUDY OF ROLE OF COMPENSATION ARRANGEMENTS (BUYBACK, PRODUCT PAYBACK, JOINT MARKETING ETC.) IN EAST-WEST TRADE.

2. ALTHOUGH THE PRINCIPAL FOCUS OF THE STUDY WILL BE GUIDELINES FOR DECISION MAKING ON FUTURE REQUESTS FOR EXIM FINANCING IN THIS AREA, STUDY WILL ALSO DEAL WITH PRESENT AND PROJECTED LEVEL OF TRADE ASSOCIATED WITH SUCH ARRANGEMENTS, AND PROBABLE IMPACT ON THE RATE AND PATTERN OF EAST-WEST TRADE DEVELOPMENT, AS WELL AS THIRD COUNTRY POLICIES AND PARTICIPATION.

3. OUTLINE OF THE STUDY AND DRAFT OF SECTION I DEFINING TYPE OF TRANSACTIONS INCLUDED WITHIN SCOPE OF THE

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ANALYSIS FOLLOW.

I. TYPES OF COMPENSATION ARRANGEMENTS

II. SIMILARITIES/DIFFERENCES TO TRADITIONAL FOREIGN
--- INVESTMENT AND OTHER INDUSTRIAL COMPENSATION
--- ARRANGEMENTS.

III. SIGNIFICANCE OF COMPENSATION ARRANGEMENTS IN EAST-
--- WEST TRADE

--- A. IW - EAST TRADE (QUANTITATIVE)
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--- B. US - EAST TRADE (QUANTITATIVE)

IV. IMPACT ON TRADE OF COMPENSATION ARRANGEMENTS

--- A. SHORT TERM

--- 1. QUALITATIVE -- CHANGES IN FIRMS/DIRECT
--- CORPORATE ACTIVITY, E.G. MARKETING APPROACH,
--- ALLOCATION OF RESOURCES? MICRO EFFECT.

--- B. LONG TERM

--- 1. QUALITATIVE -- CHANGES IN FIRMS/DIRECT
--- CORPORATE ACTIVITY, E.G. MARKETING APPROACH,

--- ALLOCATION OF RESOURCES? MICRO EFFECT.

--- 2. QUANTITATIVE -- INCREASE OR DECREASE IN TRADE?
--- MACRO EFFECT.

--- C. CHANGES IN TRADE THROUGH COMPENSATION ARRANGEMENTS

--- 1. IW
--- 2. US FIRMS

V. ECONOMIC EFFECTS IN UNITED STATES

--- A. IMPACT ON U.S. INDUSTRY, JOBS, ETC.

--- 1. IS THERE AN ADVERSE OR BENEFICIAL IMPACT?

2. PROBLEMS IN CALCULATION

--- B. EFFECTS ON U.S. EXPORTS TO THIRD COUNTRIES

VI. MOTIVATION

--- A. SOCIALIST COUNTRIES

--- 1. HARD CURRENCY LIMITATIONS
--- 2. MARKET ACCESS
--- 3. BILATERAL TRADE BALANCING

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--- 4. CREATE SELF-SUFFICIENCY
--- 5. CONTINUED FLOW OF TECHNOLOGY
--- 6. ECONOMIES OF SCALE

--- B. WESTERN

--- 1. INCREASED SALES

--- (A) TRANSFER OF OBSOLESCING/OBSOLETE
--- TECHNOLOGY

--- (B) MARKET ACCESS

--- 2. LONG TERM SOURCE OF RAW MATERIALS
--- 3. SOURCE OF INDUSTRIAL SUPPLIES AND
--- COMMODITIES IN SHORT SUPPLY.
--- 4. CONTRACTUAL AGREEMENT INSTEAD OF EQUITY
--- INVESTMENT.

VII. CONSIDERATIONS FOR U.S. FIRMS

--- A. RELATIONSHIP BETWEEN SIZE OF FIRMS AND SIZE
--- OF TRANSACTIONS?

- B. TRADE OFF BETWEEN CURRENT ASSETS/OTHER FACTORS
- (LONG/SHORT TERM)
- C. ISSUE OF VALUE OF GOODS RECEIVED

- 1. QUANTITY ISSUE -- SUFFICIENT/EXCESSIVE
- QUANTITIES AVAILABLE?

- 2. QUALITY ISSUE -- INFERIOR QUALITY/BAD
- DESIGN

- D. ISSUE OF TYPES OF GOODS RECEIVED

- 1. RAW MATERIALS OR SHORT SUPPLY COMMODITIES
- MORE ACCEPTABLE.

- 2. DIVERSITY OF MANUFACTURED GOODS MORE
- ACCEPTABLE.

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- 3. IMPORT-SENSITIVE SECTORS

- E. RELATIONSHIP TO WESTERN ECONOMIC ACTIVITY
- (RECESSION/EXPANSION)

- 1. SHORT TERM -- EFFECT ON CORPORATE
- ACTIVITIES?

- 2. LONG TERM -- EFFECT ON CORPORATE ACTIVITIES

VIII. GOVERNMENT FINANCING

- A. EXIMBANK AND COMPENSATION ARRANGEMENTS

- 1. GENERAL CONCERN
- 2. SPECIFIC CASES
- 3. CRITERIA FOR JUDGING PARTICIPATION

- B. OTHER WESTERN GOVERNMENTS' POLICIES TOWARDS
- COMPENSATION ARRANGEMENTS

- IX. RELATIONSHIP OF COMPENSATION ARRANGEMENTS TO GATT
- PRINCIPLES

- A. POSITIVE ROLE IN INITIALLY FOSTERING ECONOMIC
- INTERDEPENDENCE.

- B. LONG TERM FOSTERING OF BILATERALISM VS MULTI-
- LATERALISM?

- LIMITED BILATERALISM WITH SOCIALIST
- COUNTRIES ACCEPTABLE? GUIDELINES?

--- C. CONTRARY TO SPIRIT OF FREE TRADE? STIFLES

--- COMPETITION?

--- D. TRADE DISTORTIONS/DIVERSIONS?

--- 1. DIVERSION OF RESOURCES/TRADE/INVESTMENTS?

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--- 2. CAUSED/EXACERBATED BY SUBSIDIZED FINANCING?

E. OTHER WESTERN GOVERNMENTS' TRADE POLICIES

X. POTENTIAL PROBLEMS

--- A. LABOR ATTITUDES

--- B. BUSINESS COMMUNITY ATTITUDES

--- C. OTHER PUBLIC ATTITUDES

--- D. CONGRESSIONAL ATTITUDES

XI. POLICY GUIDELINES (CRITERIA, CRITICAL CONSIDERATIONS)

DEFINITIONS

1. PAYMENT IN RESULTANT PRODUCT/SERVICES

A CONTRACTUAL ARRANGEMENT UNDER WHICH THE WESTERN SUPPLIER RECEIVES AS COMPENSATION ONE OR A COMBINATION OF PRODUCTS, MARKETING RIGHTS, TECHNOLOGY AND/OR OTHER SERVICES WHICH ARE DIRECTLY DERIVED FROM THE INSTALLATION WHICH HE HAS SUPPLIED WITH EQUIPMENT, ENGINEERING, TECHNOLOGY, MARKETING RIGHTS AND/OR OTHER SERVICES. DEPENDING ON CONTRACT SPECIFICATIONS, THE VALUE OF THE COMPENSATION RECEIVED BY THE WESTERN SUPPLIER MAY FULLY/PARTIALLY OFFSET OR, AS UNDER A LONGER TERM ARRANGEMENT, EVEN EXCEED THE CONTRACT PRICE OF THE WESTERN EXPORT. IN LONGER TERM ARRANGEMENTS THE WESTERN SUPPLIER MAY BE ABLE TO ENSURE A LONG TERM SOURCE OF DESIRED PRODUCTS (INCLUDING COMPONENTS, RAW MATERIALS, AND OTHER INPUTS TO DOMESTIC OR WORLDWIDE PRODUCTION) IN SPECIFIED/PREDICTABLE QUANTITIES AND AT FAVORABLE, OR LEAST RELIABLE PRICES.

2. PAYMENT IN OTHER THAN RESULTANT PRODUCT/SERVICES

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A CONTRACTUAL ARRANGEMENT UNDER WHICH THE WESTERN SUPPLIER RECEIVES AS COMPENSATION ONE OR A COMBINATION OF PRODUCTS, MARKETING RIGHTS, TECHNOLOGY AND/OR SERVICES WHICH ARE NOT DIRECTLY DERIVED FROM THE INSTALLATION WHICH HE HAS SUPPLIED WITH EQUIPMENT, ENGINEERING, TECHNOLOGY, MARKETING RIGHTS AND/OR OTHER SERVICES. DEPENDING ON CONTRACT SPECIFICATIONS, THE VALUE OF THE COMPENSATION RECEIVED BY THE WESTERN SUPPLIER MAY FULLY/PARTIALLY OFFSET OR, AS UNDER A LONGER TERM ARRANGEMENT, EVEN EXCEED THE CONTRACT PRICE OF THE WESTERN EXPORT. DEPENDING ON THE PRODUCTS OR SERVICES OFFERED AS COMPENSATION, LONGER TERM ARRANGEMENTS MAY ALSO AFFORD THE WESTERN EXPORTER THE OPPORTUNITY TO ENSURE FOR HIMSELF A LONG TERM SOURCE OF DESIRED PRODUCTS IN SPECIFIED QUANTITIES AT FAVORABLE, OR AT LEAST RELIABLE PRICES.

IN NEGOTIATING PAYMENT IN OTHER THAN RESULTANT PRODUCT/SERVICE THE CHOICES AVAILABLE TO THE WESTERN PARTNER MAY INCLUDE:

- -A RELATIVELY LIMITED RANGE OF PRODUCTS (USUALLY
- LESS SALEABLE ITEMS) UNDER THE CONTROL OF THE
- FTO AND/OR INDUSTRIAL MINISTRY MAKING THE LINKED
- WESTERN PURCHASE
- -A MORE DIVERSE RANGE OF PRODUCTS, ALL WITHIN THE
- JURISDICTION OF THE PARTICIPATING FTO AND/OR
- INDUSTRIAL MINISTRY
- -A CHOICE OF ANY ITEM PRODUCED BY THE SOCIALIST
- PARTNER STATE, INCLUDING THOSE UNDER THE JURISDIC-
- TION OF OTHER FTO'S AND/OR INDUSTRIAL MINISTRIES.

THE COMPENSATING PRODUCT MAY ALSO BE DELIVERED THROUGH BILATERAL CLEARING CHANNELS INVOLVING THE SOCIALIST PARTNER AND A THIRD COUNTRY.

3. PAYMENT IN RESULTANT AND/OR OTHER PRODUCTS/SERVICES

THIS VARIATION IS A COMBINATION OF BOTH TYPES OF ARRANGEMENTS DESCRIBED PREVIOUSLY.

ARRANGEMENTS INVOLVING PAYMENT IN OTHER THAN RESULTANT
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PRODUCTS MAY DEVELOP IN CONJUNCTION WITH SEPARATE CONTRACTS INVOLVING THE PURCHASE BY THE WESTERN FIRM OF PRODUCTS/SERVICES SIMILAR TO OR QUITE DIFFERENT FROM THOSE INVOLVED IN THE FIRST CONTRACT. SUCH CONTRACTS ARE OFTEN FOR THE PURPOSE OF PROVIDING THE SOCIALIST PARTNER WITH THE FOREIGN EXCHANGE TO FINANCE THE GOODS/SERVICES PROVIDED UNDER THE INITIAL CONTRACT. IT MAY BE NECESSARY TO VIEW THESE SETS OF INTERRELATED CONTRACTS AS A SINGLE TRANSACTION, WHETHER OR NOT THEY ARE ACCOMPLISHED

CONCURRENTLY.

NOTE: ALL OF THESE ARRANGEMENTS MAY INVOLVE SEPARATE

- CONTRACTS IN WHICH THE SALE OF WESTERN PRODUCTS/
- SERVICES IS NOT EXPLICITLY TIED TO THE PURCHASE OF
- GOODS/SERVICES FROM THE SOCIALIST PARTNER.

4. ACTION POSTS REQUESTED REVIEW PRECEDING AND PROVIDE
RECOMMENDATIONS OR OTHER INPUTS AS APPROPRIATE. DUE TO
RELATIVELY SHORT LEADTIME -- STUDY IS SCHEDULED FOR
FEBRUARY COMPLETION -- POSTS REQUESTED TO REPLY BY CABLE
PROMPTLY. KISSINGER

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PRAGUE
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WARSAW

MOSCOW INFO PEKING

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